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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 SS-20 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 STR-08

CEA-02 AGR-20 DODE-00 PA-03 USIA-15 PRS-01 DRC-01

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R 130216Z OCT 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 539

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E.O. 11652: N/A

TAGS: EFIN, ECRP, KS

SUBJECT: 1974 BUDGET PROPOSES 24 PERCENT EXPENDITURE
INCREASE

REF: CERP

SUMMARY: BALANCED 1974 ROKG BUDGET OF 820 BILLION WON
HAS BEEN SUBMITTED TO NATIONAL ASSEMBLY. THIS REPRESENTS
24 PERCENT INCREASE OVER BUDGETED 1973 REVENUES AND
EXPENDITURES, BUT ONLY 17 PERCENT INCREASE OVER PROBABLE
1973 REVENUES WHICH REFLECT HIGHER THAN EXPECTED GROWTH.
EMPHASIS IN 1974 BUDGET IS ON INCREASED INVESTMENT IN
NEW HEAVY INDUSTRIES. PL 480 TITLE I IMPORTS OF DOLS 127
MILLION HAVE BEEN ASSUMED DESPITE UNCERTAIN OUTLOOK. WHILE
1974 BUDGET IS SOMEWHAT EXPANSIONARY, MAIN FISCAL PROBLEM
WILL PROBABLY BE ADDITIONAL HEAVY BORROWING BY GRAIN
MANAGEMENT FUND TO FINANCE GROWING SUBSIDIZATION OF
CONSUMER GRAIN PRICES. END SUMMARY

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1. SUMMARY BUDGET (BILLION WON):

1972 1973 1974
 #1/ #2/ #1/
 ACT. EST. BUD.

REVENUE	612	700	820
TAXES	433	533	624
OTHER DOMESTIC	90	100	119
FOREIGN	89	67	77
EXPENDITURE	651	653	820
DEFENSE	174	184	222
OTHER CURRENT	287	299	361
CAPITAL	190	170	237
BALANCE	-39	PLUS47	0

#1/ EXCLUDES REFINANCING OF 50 BILLION IN 1972 AND 42 BILLION IN 1974.

#2/ EMB ESTIMATE AS OF OCTOBER 11, 1973 BASED ON NINE MONTHS RESULTS.

2. 1973 BUDGET: DOMESTIC REVENUES ARE EXPECTED TO EXCEED BUDGET ESTIMATE BY ABOUT 8 PERCENT DUE TO CURRENT ECONOMIC BOOM. CURRENT EXPENDITURES ARE NOT EXPECTED TO INCREASE, WHICH SHOULD RESULT IN SUBSTANTIAL GENERAL BUDGET SURPLUS. THIS WOULD LARGELY OFFSET ROKG BORROWING FROM CENTRAL BANK TO COVER EXTRA BUDGETARY GRAIN MANAGEMENT FUND DEFICIT. FOREIGN LOAN RECEIPTS AND RELATED CAPITAL OUTLAYS ARE BOTH EXPECTED TO BE ABOUT 6 BILLION WON (OR DOLS 15 MILLION) BELOW BUDGET ESTIMATES. SHORTFALL IN 1973 PL 480 LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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TITLE I PROGRAM (DOLS 27 MILLION SHIPPED OUT OF DOLS 127 MILLION AGREEMENT) WILL CAUSE NET BUDGET LOSS OF ABOUT DOLS 75 MILLION, BUT OTHER LOAN REVENUES WILL BE HIGHER THAN BUDGETED. (1974 BUDGET CHANGES DESCRIBED BELOW ARE RELATIVE TO CURRENT 1973 ESTIMATES AND NOT ORIGINAL BUDGET).

3. 1974 REVENUES: DOMESTIC REVENUE GROWTH OF 17 PERCENT IN 1974 REFLECTS INCREASES IN TAX COLLECTIONS AND CUSTOMS RECEIPTS BASED ON ASSUMED 17 PERCENT GNP

GROWTH IN CURRENT PRICES AND UNREALISTICALLY LOW
11 PERCENT EXPANSION OF IMPORTS IN 1974. DOMESTIC
REVENUES AS PERCENT GNP WOULD INCREASE FRACTIONALLY
TO 13.5 PERCENT IN 1974 AND FROM 13.4 PERCENT IN 1973.
WHILE TOTAL BUDGET RECEIPTS FROM FOREIGN LOANS
PROJECTED TO INCREASE BY 10 BILLION WON (DOLS 25
MILLION) IN 1974, PL 480 TITLE I SHIPMENTS ARE
ASSUMED TO INCREASE FROM ONLY DOLS 27 MILLION IN
NEW SALES IMPLEMENTED IN 1973 TO DOLS 127 MILLION
IN 1974 (DOLS 100 MILLION REMAINING FROM 1973 AGREE-
MENT PLUS ROUGHLY ONE-FIFTH OF DOLS 154 MILLION PROGRAM
ORIGINALLY PLANNED FOR 1974). IF NOT ACHIEVED, THE
NET 1974 REVENUE LOSS WOULD BE 38.3 BILLION WON
(DOLS 95.6 MILLION), EQUAL TO 4.7 PERCENT OF TOTAL
REVENUES.

4. EXPENDITURES: TWENTY-SIX PERCENT INCREASE
REFLECTS IN PART CATCHUP REQUIREMENTS DEFERRED IN
1973 CONSTANT-EXPENDITURE BUDGET. SALARY AND
PENSION INCREASE OF 14 PERCENT INCLUDES 10 PERCENT
GENERAL PAY BOOST SCHEDULED TO TAKE EFFECT APRIL 1.
DEFENSE EXPENDITURES WILL INCREASE 21 PERCENT, OR
38 BILLION WON, OF WHICH INCREASED PERSONNEL COSTS
WILL ACCOUNT FOR 15.4 BILLION. OTHER PRINCIPAL
FACTOR IS 15.6 BILLION (DOLS 39 MILLION) INCREASE
IN EQUIPMENT MAINTENANCE OUTLAYS, PRIMARILY IN
CONNECTION WITH TRANSFER OF O&M COSTS FROM MAP TO
ROKG BUDGET. DEFENSE AS PERCENT GNP EXPECTED TO
RISE FROM 3.9 PERCENT IN 1973 TO 4.0 IN 1974, AFTER
DECLINING FROM 4.5 IN 1972.

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5. PRINCIPAL EXPENDITURE CHANGE IN 1974 IS 42
PERCENT INCREASE IN CAPITAL INVESTMENT AND LOAN
OUTLAYS OVER 1973 LEVEL, FOLLOWING 10 PERCENT
REDUCTION IN 1973. NEW FOCUS ON HEAVY AND CHEMICAL
INDUSTRIES IS REFLECTED IN 30 BILLION WON INCREASE
IN THIS CATEGORY TO 33 BILLION WON. OTHER MAJOR
OUTLAYS ARE 30 BILLION WON FOR HIGHWAYS AND 19 BILLION
EACH FOR SAEMAUL PROJECTS AND FOOD PRODUCTION.
CAPITAL ACCOUNT ALSO INCLUDES NEW ENTRY OF 3 BILLION
WON INTEREST SUBSIDY FOR NATIONAL INVESTMENT FUND
LOANS TO HEAVY AND CHEMICAL INDUSTRIES. PROVISION IS
ALSO MADE FOR ESTABLISHMENT OF NATIONAL WELFARE AND
PENSION FUND SPECIAL ACCOUNT (OUTSIDE OF GENERAL BUDGET)
FOR CHANNELING ESTIMATED 27 BILLION WON INTO NATIONAL
INVESTMENT FUND. FINALLY, CAPITAL PROJECT LOANS
TOTALING 24 BILLION WON HAVE BEEN SHIFTED FROM BUDGET
TO BANK FINANCING, CONTINUING 1972 PRACTICE AND
AVOIDING EVEN LARGER INCREASE IN 1974 CAPITAL BUDGET.

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INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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6. GRAIN MANAGEMENT FUND (GMF): THIS EXTRA-BUDGETARY FUND POSES MAIN FISCAL PROBLEM FOR ROKG. FOR 1973 IT IS AUTHORIZED ONLY 50 BILLION WON LONG-TERM CENTRAL BANK BORROWING, WHICH MAY FALL SHORT OF ACTUAL NEEDS DUE TO RISING WORLD GRAIN PRICES, CONTINUED LOW (STABILIZATION) PRICES TO CONSUMERS AND PROSPECTIVE BUMPER RICE CROP. TOTAL BORROWING, INCLUDING SHORT-TERM CREDITS, MAY BE AS MUCH AS 84 BILLION, DEPENDING ON TIMING OF PURCHASES AND SALES. IF SO, ROUGH OVERALL FISCAL BALANCE (BASED ON 50 BILLION GMF DEFICIT) WOULD BE CONVERTED INTO OVERALL DEFICIT OF PERHAPS 34 BILLION WON (COMPARED TO 50 BILLION DEFICIT IN 1972). FOR 1974, HOWEVER, BUDGET AUTHORIZES 170 BILLION IN LONG-TERM BORROWING FOR GMF. SUCH BORROWING, PLUS POSSIBLE ZERO PROCEEDS FROM PL 480, COULD RESULT IN OVERALL FISCAL DEFICIT IN 1974 OF OVER 200 BILLION WON, WHICH WOULD BE SERIOUSLY INFLATIONARY.

7. COMMENT: 1974 BUDGET PROPER IS SOMEWHAT

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EXPANSIONARY SINCE EXPENDITURES INCREASE FASTER THAN ESTIMATED GNP. HOWEVER, REVERSE IS TRUE WHEN 1972-74 COMPARISON MADE. SAME IS TRUE OF DEFENSE SPENDING, WHICH RISES BY ONLY 28 PERCENT IN 1972-74. FOREIGN FINANCING OF BUDGET HAYS DECLINED STEADILY FROM 13.7 PERCENT IN 1972 TO 10.3 PERCENT IN 1973 AND 9.4 PERCENT IN 1974. LATTER ASSUMES 1974 BUDGET WILL BENEFIT FROM DOLS 131 MILLION IN EXPECTED PL 480 TITLE I SHIPMENTS, WHICH IS MATTER OF MOST SERIOUS CONCERN FOR ROKG. MAJOR FISCAL PROBLEM FOR 1974, HOWEVER, WILL BE GRAIN MANAGEMENT FUND. IN BUDGET MESSAGE, PRESIDENT PARK EMPHASIZED PRICE STABILITY GOALS, PARTICULARLY FOR FOOD PRICES AND UTILITY RATES, AND IT APPEARS THAT GRAIN MANAGEMENT FUND WILL BE USED TO HOLD DOWN CONSUMER FOOD PRICES WHILE INCREASING PRICES TO FARMERS, AT EXPENSE OF INFLATIONARY BORROWING FROM CENTRAL BANK.

8. AIRGRAM WILL FOLLOW.
DECONTROL FOLLOWING OCTOBER 11, 1974.
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